

## Message Text

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PAGE 01 KARACH 02192 01 OF 02 060740Z

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ACTION EB-06

INFO OCT-01 EA-06 NEA-06 ISO-00 AGR-05 CIAE-00 COME-00

INR-05 LAB-01 NSAE-00 RSC-01 SP-02 STR-01 TRSE-00

SWF-01 CIEP-01 FRB-01 OMB-01 TAR-01 L-01 AID-05 PA-01

USIA-06 PRS-01 /053 W

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R 060430Z NOV 74

FM AMCONSUL KARACHI

TO SECSTATE WASHDC 8467

INFO AMCONSUL HONG KONG

AMEMBASSY ISLAMABAD

AMCONSUL LAHORE

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 KARACHI 2192

E.O. 11652: N/A

TAGS: ECON, EPAT, ETRD, PK

SUBJECT: GOP ADOPTS NEW MEASURES TO EASE TEXTILE CRISIS

REF: A. KARACHI 1563 B. KARACHI 1627 C. KARACHI 1730

D. KARACHI 1862

SUMMARY: ON OCT. 30 MIN INDUSTRIES AND PRODUCTION RAFI  
RAZA ANNOUNCED NEW MEASURES DESIGNED TO EASE  
CONTINUING CRISIS IN PAKISTAN COTTON TEXTILE INDUSTRY.  
MEASURES INCLUDE NEAR ELIMINATION OF DOMESTIC EXCISE  
DUTY ON YARN AND REDUCTION IN PROCUREMENT PRICE OF  
GINNED COTTON WITH COMMITMENT BY GOP COTTON EXPORT  
CORPORATION (CEC) TO PURCHASE ALL COTTON OFFERED AT NEW  
FLOOR PRICE. ALTHOUGH NOT PUBLICIZED AS PART OF NEW  
SCHEME, FURTHER CREDIT ALSO BEING PROVIDED TO MILLS IN  
ORDER MAINTAIN PRODUCTION AND PAY MOUNTING DEBTS TO COTTON  
GINNERS. MEASURES WILL REDUCE PRODUCTION COSTS OF HARD-  
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PAGE 02 KARACH 02192 01 OF 02 060740Z

PRESSED YARN SPINNING MILLS AND MAKE PAK YARN AND RAW

COTTON SLIGHTLY MORE COMPETITIVE IN WORLD MARKET WHICH CONTINUES DEPRESSED. RECENT EXPORT DATA, HOWEVER, INDICATES POSSIBLE STRENGTHENING IN WORLD MARKET CONDITIONS WHICH MAY RESULT IN BOTTOMING OUT OF PAK TEXTILE CRISIS OVER NEXT SIX MONTHS. NEW MEASURES ADJUST FINANCIAL INTERRELATIONSHIPS OF GOP, COTTON GROWERS, AND SPINNING MILLS TO GREATER ADVANTAGE OF LATTER GKGOP ESTIMATED TO LOSE SOME \$30 MILLION OVER COMING YEAR IN EXCISE TAXES) SO THAT YARN CAN NOW BE PRODUCED ABOUT 10 PERCENT CHEAPER FOR EXPORT MARKET AND 20 PERCENT CHEAPER FOR DOMESTIC MARKET.) SPINNING MILLS, HOWEVER, WILL BE LEFT WITH CONTINUING PROBLEM OF HIGH INVENTORIES ON WHICH THEY HAVE ALREADY PAID EXCISE TAX AT OLD HIGH RATE. END SUMMARY.

1. FOLLOWING DISCUSSIONS IN ISLAMABAD LASTING SEVERAL DAYS BETWEEN ALL PAKISTAN TEXTILE MILLS ASSOCIATION (APTMA) AND INTER-MINISTERIAL GROUP HEADED BY MIN INDUSTRIES RAZA, LATTER ANNOUNCED NEW COTTON POLICY ON OCT. 30, 1974. MAIN PROVISIONS OF NEW POLICY AS FOLLOWS:

A. REDUCTION OF EXCISE TAX ON COTTON YARN - MAJOR PROVISION OF NEW POLICY IS REDUCTION OF GOP EXCISE TAX ON COTTON YARN BY RS. 6 PER BUNDLE. (THIS ELIMINATES TAX ON LOW-COUNT YARN AND REDUCES TAX BY 50 PERCENT MYFIUM GRADES.) REDUCTION ESTIMATED TO COST GOP SOME RS. 30 CRORES (\$30 MILLION) IN REVENUE PER ANNUM, A HEAVY BLOW IN LEAN BUDGET YEAR. SINCE EXCISE TAX WAS PREVIOUSLY REMITTED ON ALL EXPORTED COTTON YARN, REDUCTION WILL HAVE NO EFFECT ON EXPORT MARKET BUT WILL LOWER COST OF YARN FOR DOMESTIC MARKET WHICH OVER PAST MONTHS HAS ALSO SLIMPED RESULTING IN SALES BELOW COST. SOFT DOMESTIC MARKET COMBINED WITH WORLD MARKET SLUMP HAS AGGRAVATED TEXTILE CRISIS. OWING TO PRESENTLY REDUCED PRICE OF YARN, WHICH DROPPED BY ABOUT 10 PERCENT BECAUSE OF ELIMINATION OF EXCISE TAX, INCREASED DEMAND FROM "POWER LOOM" (SMALL INDUSTRY) SECTOR ANTICIPATED. GROWTH IN YARN INVENTORIES CONSEQUENTLY MAY SLOW, WHICH WOULD IMPROVE LIQUIDITY OF DISTRESSED SPINNING MILLS SOMEWHAT. ACCORDING CLAIMS OF MILL OWNERS, HOWEVER, DROP IN DOMESTIC YARN PRICE WHICH FOLLOWED OCT. 30 ANNOUNCEMENT OF EXCISE DUTY LIMITED OFFICIAL USE

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PAGE 03 KARACH 02192 01 OF 02 060740Z

REMISSION STILL LEAVES SPINNING MILLS IN POSITION OF SELLING BELOW COST. B. REDUCTION OF COTTON PROCUREMENT PRICE - GOP REDUCED OFFICIAL FLOOR PROCUREMENT PRICE PAID BY MILLS TO GINNERS FOR LINT COTTON FROM RS. 237 PER MAUND (ABOUT 82 LBS) TO RS. 200, WH H WILL IN TURN RESULT IN REDUCTION OF PRICE PAID BY GINNERS TO FARMERS FOR SEED COTTON FROM RS. 90 PER MAUND TO ABOUT RS. 70 TO 80. REDUCTION WILL LOWER COST OF COTTON FOR SPINNING

MILLS FROM RS. 35 TO RS. 30 PER 10 LB. BUNDLE. INFORMED  
SOURCE ESTIMATES THIS PRICE REDUCTION WILL ALLOW YARN  
EXPORTERS TO SELL PRODUCT IN HONG KONG MARKET AT BREAK-  
EVEN COST OF 44 CENTS PER LB., IF HONG KONG MARKET PRICE  
CONTINUES STEADY. (OVER PAST FEW MONTHS YARN EXPORTERS  
HAVE REPORTED THEY HAVE BEEN SELLING YARN AT ABOUT 44 CENTS PER  
LB. LOSS IN WORLD MARKET.) C. ESTABLISHMENT OF FIRM FLOOR  
PRICE FOR COTTON GROWERS - COMMITMENT BY CEC TO BUY  
ALL LINT OFFERED AT RS. 200 PER MAUND WILL, IF ACTUALLY  
CARRIED OUT, PLACE EFFECTIVE FLOOR ON COTTON HEDGE MARKET  
AND INSURE RETURN TO FARMERS OF ABOUT RS. 75 PER MAUND FOR  
SEED COTTON. PREVIOUSLY, WITH CEC PURCHASING ONLY ABOUT  
25 PERCENT OF COTTON AT OLD PROCUREMENT PRICE OF RS. 237 PER  
MAUND, PROSPECT EXISTED FOR DOMESTIC MARKET PRICE TO  
DROP MUCH LOWER. THIS COMMITMENT THEREFORE IS  
REGARDED BY MILL OWNERS HERE AS FAVORING COTTON GROWERS,  
DESPITE IMMEDIATE DROP IN COTTON PROCUREMENT PRICE.

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PAGE 01 KARACH 02192 02 OF 02 060720Z

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LIMITED OFFICIAL USE SECTION 2 OF 2 KARACHI 2192

D. ADDITIONAL CREDIT TO SPINNING MILLS AND GOP FINANCING

OF YARN EXPORTS - UNPUBLICIZED PART OF NEW GOP EFFORTS TO PUT TEXTILE SECTOR ON MORE VIABLE BASIS INCLUDES, ACCORDING TO LOCAL BANKERS, PROVISION OF ADDITIONAL LOANS THROUGH RELAXED LENDING POLICIES. BANKS HAVE BEEN INSTRUCTED TO LOAN TO MILLS ON ALMOST ANY COLLATERAL AND SOME LOANS MADE WITHIN LAST FEW DAYS WHICH HAVE ENABLED MILLS TO DISCHARGE OUTSTANDING OBLIGATIONS TO GINNERS WHO IN TURN WILL BE IN BETTER POSITION TO PURCHASE NEW COTTON CROP WHICH NOW COMING IN. GOP ALSO REPORTEDLY PLANNING TO PROVIDE MEDIUM TERM FINANCING OF COTTON YARN EXPORTS TO NON-TRADITIONAL MARKETS, SUCH AS EASTERN EUROPE AND SOME OF NON-OIL PRODUCING ARAB COUNTRIES. SALES IN PAST INHIBITED BY INABILITY OF TEXTILE INDUSTRY PROVIDE SUCH FINANCING.

2. COMMENT: GOP'S NEW COTTON POLICY HAS BEEN HAILED IN PRESS AS WELL AS IN SOME BUSINESS CIRCLES AS A "BOLD LIMITED OFFICIAL USE

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PAGE 02 KARACH 02192 02 OF 02 060720Z

AND EFFECTIVE STEP TO SOLVE THE PROBLEMS OF THE TEXTILE INDUSTRY" AND HAS RESULTED IN SOME STRENGTHENING OF KARACHI'S CHRONICALLY WEAK STOCK MARKET. GOVT-INDUSTRY MEETINGS, DURING WHICH NEW POLICY WAS EVOLVED, WERE CALLED SHORTLY AFTER FORMATION OF P.M. BHUTTO'S NEW CABINET ON OCT. 22 FROM WHICH MINFINANCE MUBASHIR HASAN WAS DROPPED AND WHICH IS CONSIDERED MORE FAVORABLY DISPOSED TOWARD THE PRIVATE SECTOR. DURING THESE MEETINGS, THE ALL PAKISTAN TEXTILE MANUFACTURERS ASSOCIATION HAD PUT FORWARD ITS OWN PROPOSED SOLUTION TO THE TEXTILE CRISIS, WHICH INCLUDED GOP PURCHASE OF EXCESS YARN INVENTORY AT PRICE OF RS. 65 PER BUNDLE AND REDUCTION IN YARN PRODUCTION THROUGH SHUTTING DOWN OF ONE SHIFT IN MILLS, TO BE ENFORCED BY THE GOP. THESE PROPOSALS REJECTED BY GOP ON GROUND THAT ONE THIRD PRODUCTION CUT WOULD HAVE LED TO A STRONG RISE IN THE DOMESTIC PRICE OF YARN AND CONSEQUENT RISE IN CLOTH PRICES WHICH WOULD HAVE CREATED FURTHER INFLATION.

3. ACTUAL MEASURES NOW ADOPTED BY GOP DO NOT SOLVE INDUSTRY'S PROBLEM OF LARGE ACCUMULATED INVENTORIES. DRAWDOWN OF THESE INVENTORIES DEPENDS PRIMARILY ON DEMAND IN WORLD MARKET AND SECONDARILY ON DEMAND FROM DEPRESSED LOCAL POWER LOOM SECTOR (WHICH MAY BE STIMULATED BY NEW POLICY). LATEST REPORTS SHOW REGISTRATION OF EXPORT SALES OF PAK YARN IN OCTOBER WAS UP TO 25 MILLION POUNDS, A THREEFOLD INCREASE OVER AUGUST. THIS SHARP INCREASE IN YARN EXPORTS BELIEVED LARGELY DUE TO ABOLITION OF EXPORT DUTY IN LATE AUGUST (REPORTED REF C), BUT MAY ALSO INDICATE LONG EXPECTED BOTTOMING OUT OF WORLD MARKET SLUMP.

4. MOST BALANCED OBSERVERS FROM PRIVATE SECTOR HERE ADMIT THAT GOVT-INDUSTRY MEETINGS IN ISLAMABAD WERE CARRIED ON WITH MUCH BETTER SPIRIT OF UNDERSTANDING AND COMPROMISE ON PART OF GOP THAN WERE PREVIOUS NEGOTIATIONS UNDER AEGIS OF EX-MINFINANCE MUBASHIR HASAN IN LAST AUGUST. (AUGUST MEETINGS RESULTED IN WIDETA PUBLICIZED DENUNCIATIONS BY MUBASHIR OF TEXTILE INDUSTRY, WHICH HE ACCUSED OF PROFITEERING AND DISHONESTY IN PAST - REPORTED REF A. HIS PROPOSALS AT THAT TIME FOR "PROFIT-LOSS SHARING SCHEME" WERE WIDELY REGARDED BY INDUSTRY AS THIN LIMITED OFFICIAL USE

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PAGE 03 KARACH 02192 02 OF 02 060720Z

END OF WEDGE TOWARD NATIONALIZATION AND CONSEQUENTLY REJECTED). NEW SPIRIT FURTHERED BY UNPRECEDENTED RADIO-TV INTERVIEW IN WHICH MIN INDUSTRIES RAFI FAZA SERVED AS GOP SPOKESMAN FOR COTTON POLICY, FLANKED BY THE P.M.'S TWO ADVISERS, BUCHA (AGRICULTURE) AND QAISER (ECONOMICS). ATMOSPHERE OF INTERVIEW VERY CORDIAL, WITH RAFI FAZA MAKING ESPECIALLY GOOD IMPRESSION. APTMA OFFICIAL PRESENT AT RECENT MEETINGS WITH RAZA COMMENTED ON LATTER'S CONCILIATORY APPROACH AND NOTED FACT THAT COTTON POLICY NOW BEING DIRECTED BY MIN PRODUCTION RAZA INSTEAD OF MIN FIN INDICATES DECREASE OF POWER AND INFLUENCE OF FINANCE MINISTRY WITH DEPARTURE OF MUBASHIR. WE AGREE WITH THIS OBSERVATION.

5. TEXTILE INDUSTRY HERE STILL BELIEVES MAIN PROBLEMS WILL ONLY BE SOLVED BY REVIVAL OF EXPORT MARKET WHICH AS POINTED OUT ABOVE, MAY HAVE BEGUN. ITS LEADERS EMPHASIZE THAT YARN INVENTORY PROBLEMS ARE NOW EVEN WORSE THAN BEFORE, SINCE EXCISE DUTY AT OLD HIGH RATE HAD BEEN PAID OR MUST BE PAID ON ALL YARN TO BE USED IN DOMESTIC MARKET AND PRODUCED PRIOR TO OCT. 30, WHILE DOMESTIC YARN PRICES HAVE DROPPED A FURTHER 10 PERCENT. THEY ADMIT HOWEVER THAT RS. 30 CRORE SACRIFICE OF EXCISE DUTY BY GOP IS INDICATIVE OF INCREASED UNDERSTANDING FOR PREDICAMENT OF INDUSTRY AND GOP'S DESIRE TO HELP. INITIAL APTMA OFFICIAL RESPONSE TO NEW GOP MEASURES HAS BEEN FAVORABLE. APTMA HAS SCHEDULED GENERAL MEETING FOR NOV. 9 WHEN EFFECT GOP MEASURES WILL BE ASSESSED AND FURTHER INDUSTRY POSITION EVOLVED.

6. ALTHOUGH GOP WAS UNABLE MEET ALL TEXTILE INDUSTRY'S RELIEF REQUESTS, DECISION TO FOREGO EXCISE TAX, FOLLOWING DECISION ON AUG. 18 TO ABOLISH EXPORT DUTY ON COTTON YARN IS, WE BELIEVE, A FURTHER INDICATION OF GENUINE GOP EFFORT TO FIND SOLUTION TO PROBLEMS OF TEXTILE SECTOR IN PARTICULAR, AND PRIVATE SECTOR IN GENERAL. STATEMENT OF PRIME MINISTER AT RECENT MEETING WITH BUSINESSMEN HERE THAT NEW CABINET WILL CONSULT AND COOPERATE WITH

PRIVATE SECTOR THUS APPEARS SO FAR TO HAVE BEEN MADE IN  
GOOD FAITH.  
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PAGE 04 KARACH 02192 02 OF 02 060720Z

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## Message Attributes

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